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UNCLAS SECTION 01 OF 02 BRASILIA 002905

SIPDIS

SENSITIVE

NSC FOR MIKE DEMPSEY
STATE PLEASE PASS TO USTR FOR SCRININ
DEPT OF TREASURY FOR FPARODI
USDOC FOR 4332/ITA/MAC/WH/OLAC/SHIELDS
USDOC ALSO FOR 3134/ITA/USCS/OIO/WH/RD/CREATORE
USDA FOR FAS/ITP AND FAS/FAA/WH
DOE FOR SARAH MARQUIS
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
STATE PASS EXIM FOR NATALIE WEISS, COCONNER
STATE PASS USTDA FOR AMCKINNEY

E.O. 12958: N/A

TAGS: [ECPS](#) [EINV](#) [BEXP](#) [PGOV](#) [ETRD](#) [BR](#)

SUBJECT: AMBASSADOR AND MINISTER OF COMMUNICATIONS DISCUSS
THE GOB'S DIGITAL FUTURE

11. (SBU) SUMMARY AND INTRODUCTION. ON NOVEMBER 4, AMBASSADOR PAID A COURTESY CALL ON MINISTER OF COMMUNICATIONS EUNICIO OLIVEIRA. IN RESPONSE TO THE AMBASSADOR'S PITCH FOR THE GOB TO CONSIDER FAVORABLY THE US STANDARD FOR DIGITAL TELEVISION, THE MINISTER REPLIED THAT BRAZIL WAS KEEPING ITS OPTIONS OPEN. THE GOB WOULD BE DISPOSED TO ADOPT A FOREIGN-DEVELOPED DIGITAL TV STANDARD, OLIVEIRA OBSERVED, IF: A) THAT STANDARD SUPPORTED GOB EFFORTS TO ESTABLISH A DIGITAL BACKBONE LINKING FEDERAL GOVERNMENT AGENCIES, SCHOOLS, AND LIBRARIES, AND B) A PORTION OF THE NECESSARY HARDWARE/SOFTWARE COULD BE MANUFACTURED/DEVELOPED IN BRAZIL. MEANWHILE, RUMORS CONTINUE TO CIRCULATE THAT OLIVEIRA, A FEDERAL DEPUTY WHO PREVIOUSLY SERVED AS LEADER OF THE PMDB PARTY IN THE CHAMBER, WOULD STEP DOWN IF THE PMDB PARTY LEAVES THE RULING COALITION. SEPARATELY, OFFICIALS AT ANATEL, THE GOB'S TELECOM REGULATORY AGENCY, STRESS THAT WHILE THEY TAKE PART IN INTER-AGENCY DISCUSSIONS ON DIGITAL ISSUES, THE MINISTRY HAS THE LEAD ON THESE MATTERS. END SUMMARY AND INTRODUCTION.

DIGITAL TV STANDARD

12. (SBU) ON NOVEMBER 4, AMBASSADOR, ACCOMPANIED BY ECONCOUNS AND FCS DEPUTY SENIOR COMMERICAL OFFICER, MET WITH MINISTER OF COMMUNICATIONS EUNICIO OLIVEIRA AND HIS INTERNATIONAL ADVISOR CLAUDIO NASCIMENTO. THE CORDIAL 45-MINUTE CONVERSATION FOCUSED ON THE STATUS OF THE GOB'S DELIBERATIONS REGARDING THE ADOPTION OF A NEW DIGITAL TELEVISION STANDARD. (BRAZIL IS CURRENTLY IN THE PROCESS OF CHOOSING FROM ONE OF POTENTIAL THREE DTV STANDARDS: THE ATSC - I.E., AMERICAN), THE DVB - I.E., EUROPEAN), AND THE ISDB - I.E., JAPANESE). THE MINISTER NOTED THAT THE GOVERNMENT'S INTERNAL DECISIONMAKING ON THIS ISSUE HAS BEEN ONGOING SINCE 2000, AND THAT ONE OF THE REASONS PROGRESS HAS BEEN SLOW IS THAT THE GOB WANTED TO ENSURE THAT WHATEVER STANDARD WAS ADOPTED ALSO SUPPORTED THE ADMINISTRATION'S PLANNED DIGITAL INCLUSION EFFORTS. CURRENT PLANNING WAS TO LINK LIBRARIES, SCHOOLS, AND SIMILAR TYPE FACILITIES TOGETHER VIA A DIGITAL BACKBONE, OLIVEIRA SAID, AND IT ONLY SEEMED NATURAL THAT THE GOVERNMENT SEEK AS MUCH SYNERGY AS POSSIBLE WITH RESPECT TO DTV.

13. (SBU) A FURTHER COMPLICATED FACTOR, OLIVEIRA ADDED, WAS THE LINE OF THOUGHT THAT BRAZIL SHOULD ADOPT ITS OWN ONE-COUNTRY STANDARD, WHICH WOULD ALLOW THE GOVERNMENT TO ENSURE THAT THE STANDARD CHOSEN WAS CONSISTENT WITH THE DIGITAL INCLUSION PROJECT. HOWEVER, THE MINISTER CONTINUED (CHOOSING HIS WORDS CAREFULLY), SHOULD TECHNICAL STUDY REVEAL THAT THE ATSC STANDARD SATISFIED GOB CONCERNS REGARDING SUPPORT FOR DIGITAL INCLUSION, THERE WOULD BE A GOOD CASE FOR CHOOSING THAT STANDARD. HE COMMENTED THAT IT WOULD BE EVEN MORE HELPFUL TO US LOBBYING IF U.S. FIRMS COULD SHOW THAT THEY PLANNED TO MANUFACTURE AND/OR DEVELOP SOME OF THE NECESSARY HARDWARE/SOFTWARE FOR DTV IN BRAZIL. OLIVEIRA SAID THAT THE GOB WAS OPEN TO RECEIVING WHATEVER TECHNICAL INFORMATION THAT THE USG OR SPECIFIC U.S. FIRMS WANTED TO OFFER REGARDING THE ATSC STANDARD.

14. (SBU) COMMENT. WHILE THE MINISTER'S STATEMENTS ABOUT BRAZIL HAVING AN OPEN MIND ON THIS ISSUE WERE GOOD NEWS, THE PICTURE IS A BIT MORE COMPLICATED. ACCORDING TO THE LOCAL RUMOR MILL, OLIVEIRA - WHO PREVIOUSLY WAS THE CHAMBER OF DEPUTIES' FLOOR LEADER FOR THE PMDB PARTY (ONE OF THE LULA GOVERNMENT'S COALITION PARTNERS) - WOULD STEP DOWN AS MINISTER SHOULD THE PMDB DESERT THE GOVERNING COALITION. THE PRESS REPORTS THAT WHILE WITHIN PARTY STRATEGY SESSIONS HE IS AMONG THOSE ARGUING IN FAVOR OF CONTINUED PMDB PARTICIPATION IN THE GOVERNMENT, SHOULD HIS ARGUMENTS FAIL

TO CARRY THE DAY THERE IS NO GUARANTEE THAT ANY SUCCESSOR WOULD HAVE THE SAME ATTITUDE ON THE DTV ISSUE. INDEED, BOTH OLIVEIRA AND OUR CONTACTS AT ANATEL (THE GOB TELECOM REGULATORY AGENCY) NOTED THAT THERE ARE SOME WITHIN THE PT (THE PRESIDENT'S PARTY) WHO STRONGLY FAVOR A HOME-GROWN BRAZIL STANDARD. END COMMENT.

15. (SBU) MEANWHILE, IN A SEPARATE MEETING THE SAME DAY WITH ANATEL CHIEF PRESIDENT ZILLER, EMBOFFS TOUCHED UPON THE SAME ISSUE. ZILLER SAID THAT THE GOB'S DECISION REGARDING THE CHOICE OF A DTV STANDARD WAS BEING MADE BY AN INTERAGENCY COMMITTEE (HEADED BY THE MINISTER OF COMMUNICATIONS) AND THAT IT WAS CONTEMPLATED THAT THE MATTER WOULD BE RESOLVED IN 2005. NOTE: U.S. FIRMS INTERESTED IN THE BRAZILIAN DTV MARKET HAVE TOLD US THAT THE LOCAL BROADCAST INDUSTRY IS PRESSURING THE GOB TO MEET THIS 2005 DEADLINE. BRAZILIAN BROADCASTERS ARE FACING INCREASING COMPETITION FOR SCARCE ADVERTISING REVENUE FROM CELLULAR PHONE COMPANIES -- WHO ARE NOW CAPABLE OF PROVIDING TELEVISION SIGNALS TO THEIR CUSTOMERS.

THE FIXED LINE MARKET

16. (SBU) ANATEL PRESIDENT ZILLER ALSO PROVIDED THE CURRENT STATE-OF-PLAY FOR EMBOFFS ON VARIOUS OTHER TELECOM ISSUES. WITH RESPECT TO WIRED TELEPHONY, HE NOTED THAT A NUMBER OF CURRENT CONCESSIONS WOULD EXPIRE NEXT YEAR. THE GOB, HE SAID, HOPED TO THEN RENEW THEM FROM 2006 TO 2025, WITH ANATEL ITSELF WORKING TO INCREASE PORTABILITY OF FIXED LINES, ESTABLISH A PRICING MODEL FOR INTERCONNECTIVITY, PUT IN PLACE TELEPHONE METERS FOR RESIDENTIAL LINES, AND ESTABLISH A NEW AND SEPARATE PRICE INDEX (I.E., OTHER THAN THE CURRENT IPCA OR IGI-P) FOR THE TELECOMMUNICATIONS SECTOR. ZILLER DID NOT SEE VOICE OVER INTERNET PROTOCOL (VOIP) AS AN IMMEDIATE THREAT TO THE FIXED LINE COMPANIES THOUGH HE ADMITTED THAT A NUMBER OF COMPANIES WHICH HAD THEIR OWN DATA LINKS WERE MOVING TO THIS TECHNOLOGY. WHILE ANATEL HAD NOT FULLY THOUGHT THROUGH HOW IT WOULD APPROACH VOIP - I.E., WAS IT A TECHNOLOGY OR A SERVICE - CURRENT LAW PROHIBITS USE OF VOIP ON GOVERNMENT TRANSMISSION LINES, HE OBSERVED. COMMENT. NOTWITHSTANDING THIS LEGAL PROHIBITION, SEVERAL COMPANIES PUBLICLY ADVERTISE CUT-RATE INTERNATIONAL AND LONG-DISTANCE PRICES BASED ON THEIR USE OF VOIP. END COMMENT.

MOBILE TELEPHONY

17. (SBU) FINALLY, ZILLER STATED THAT ANATEL WAS WORKING ON A STUDY OF THIRD GENERATION MOBILE TELEPHONY THAT SHOULD BE READY BY THE FIRST SEMESTER OF 2005. CURRENTLY, ABOUT 50 PERCENT OF THE WIRELESS PHONES IN BRAZIL USED TDMA TECHNOLOGY, THOUGH OVER THE NEXT FEW YEARS IT WAS EXPECTED THAT CELLULAR PROVIDERS WOULD MIGRATE TO CDMA AND GSM TECHNOLOGY. WHILE ANATEL, WHICH SAW ITS REGULATORY ROLE AS THAT OF A NEUTRAL REFEREE, WAS NOT ENCOURAGING THIS MOVEMENT, BASED UPON CURRENT TRENDS HE FELT THAT SUCH MIGRATION WAS INEVITABLE.

CHICOLA